



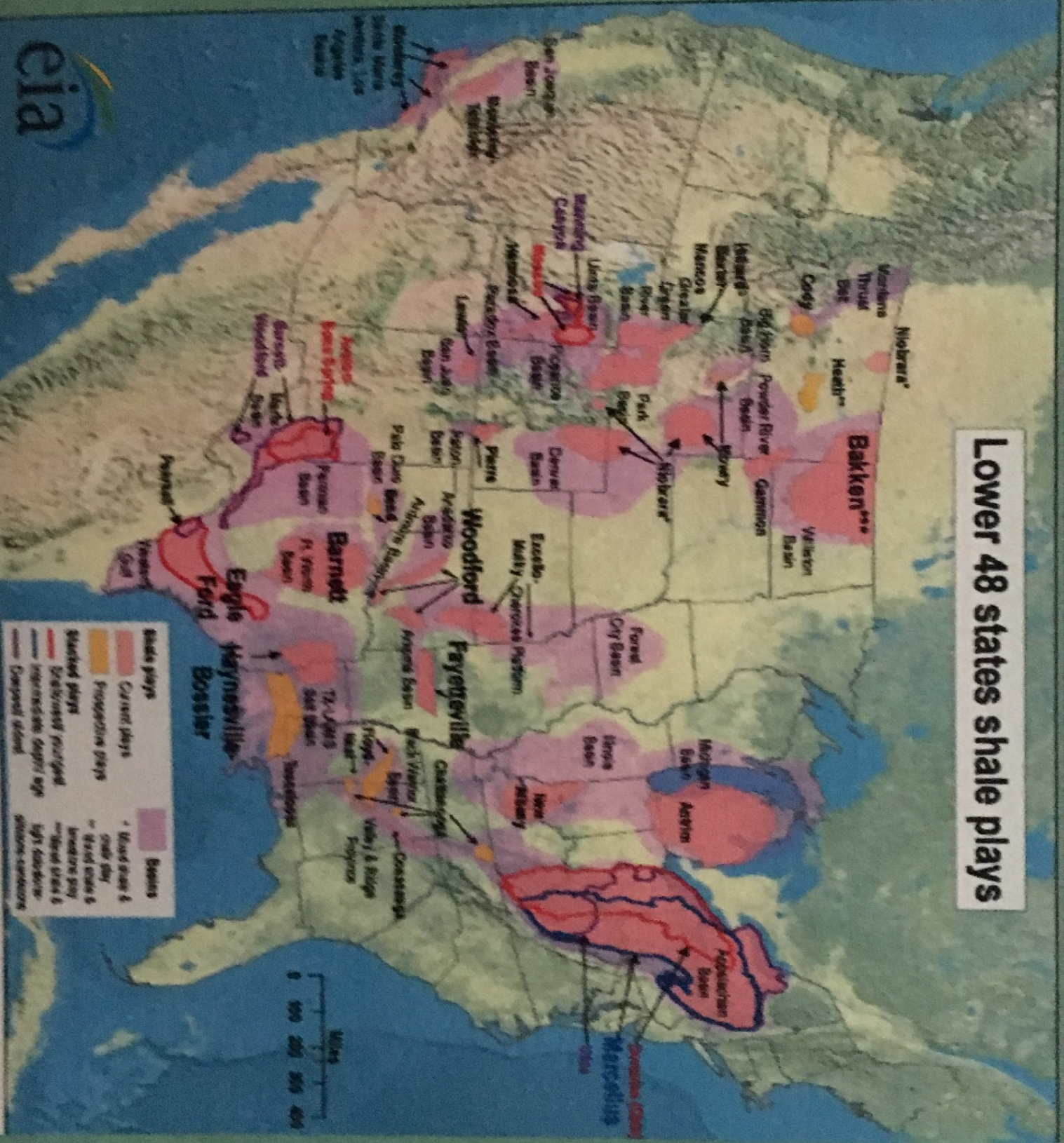
Oil Pipeline Regulation

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Federal Energy Regulatory Commission

Lower 48 states shale plays



Lower 48 states shale plays





History

Interstate Commerce Act of 1887 (ICA): Originally applied to railroads.

Hepburn Act of 1906: Brought oil pipelines under the ICA.

Department of Energy Organization Act of 1977: Transferred jurisdiction to FERC.

The ICA as it exists today and as it is applied to other forms of transportation previously regulated by the ICC is NOT the Act that applies to oil pipelines. Oil pipelines are governed by the version of the ICA as it stood on the day of enactment of the DOE Organization Act.

Energy Policy Act of 1992: Existing rates were deemed by law to be just and reasonable and FERC was ordered to develop a "simplified and generally applicable ratemaking methodology" to adjust those rates in the future.

Indexation was one result of this directive.

Important Orders

Order No. 561 – Revisions to Oil Pipeline Regulations Pursuant to the Energy Policy Act of 1992 (indexing)

Order No. 571 – Cost of Service Reporting and Filing Requirements for Oil Pipelines (1994)

Order No. 572 – Market Based Ratemaking for Oil Pipelines (1994)

Oil Rate Methodology

- Index rates
- Settlement rates
- Cost of service
- Market based rates

Oil vs. Gas Pipeline Regulation

Oil

- Common carriage
- No approval required for construction and abandonment
- Unique regulatory model

Natural Gas

- Contract carriage
- Approval required for construction and abandonment
- Natural monopoly model

FERC Regulated and Non-FERC Regulated Oil Pipeline Activities

REGULATED ACTIVITIES

- Rates and charges (ICA Section 6)
- Terms of service (FERC rules and regulations)
- Accounting (FERC USOA)
- Reporting (FERC Form 6)
- Disclosure of shipper information (ICA Section 15(13))

NON-REGULATED ACTIVITIES

- Construction and abandonment of oil pipelines
- Sales and leases of oil pipeline assets
- Securities transactions
- Provision of non-transportation services
 - long-term storage and terminalling
 - in-line transfer documentation

What does FERC Regulate?

The Commission's responsibilities include:

- Regulation of transportation rates, rules and regulations necessary for oil pipeline companies to engage in interstate transportation;
- Establishment of equal service conditions such as equal access to pipeline transportation and just and reasonable mechanisms for allocating available capacity; and
- Establishment of just and reasonable rates for transporting petroleum and petroleum products by pipeline.
- FERC has jurisdiction over the interstate common carrier transportation of hydrocarbons (crude, refined products, and natural gas liquids) by pipeline.

How Crude and Petroleum Products Move in the United States

- Pipelines carry most of the crude and petroleum products around the country.
- However, since it took a while for pipeline projects to get online to serve shale plays, crude by rail became an increasingly important part of the transportation landscape
- In 2014, crude by rail increased nearly 5,100 percent from 2008. This has been declining in recent years, due to the narrowing price differences between domestic and imported crude oil, the opening of new crude oil pipelines, and the declining domestic production in the Midwest and Gulf Coast onshore regions.
- Rail moves approximately 11% of the production in the US.
- Barge moves a little less than a quarter.
- Trucks are used usually as the "last mile."

Common Carriage/ Contract Carriage

- Generally, the ICA provides for common carriage.
- To encourage infrastructure development, the Commission has allowed Transportation Service Agreements (TSAs) pursuant to which committed shippers can receive a discount if they contract to either ship or pay for a given volume of product for a certain period of time.
- Uncommitted shippers, also known as spot shippers, are governed by the FERC tariff provisions on file.
- If a pipeline is fully utilized, prorationing may be required and shipments may be reduced per the tariff provisions.



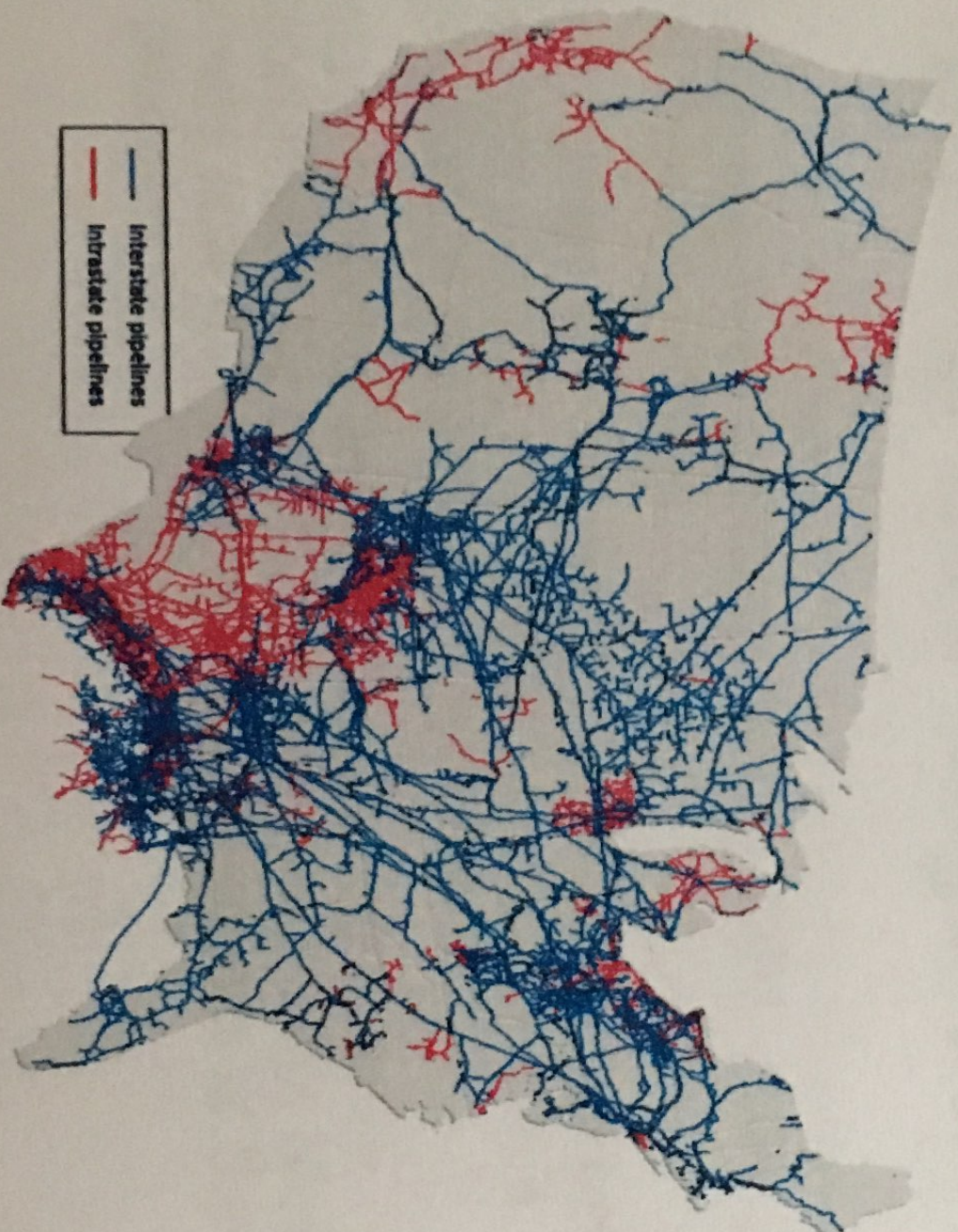
Natural Gas Pipeline Regulation

Michael Ji

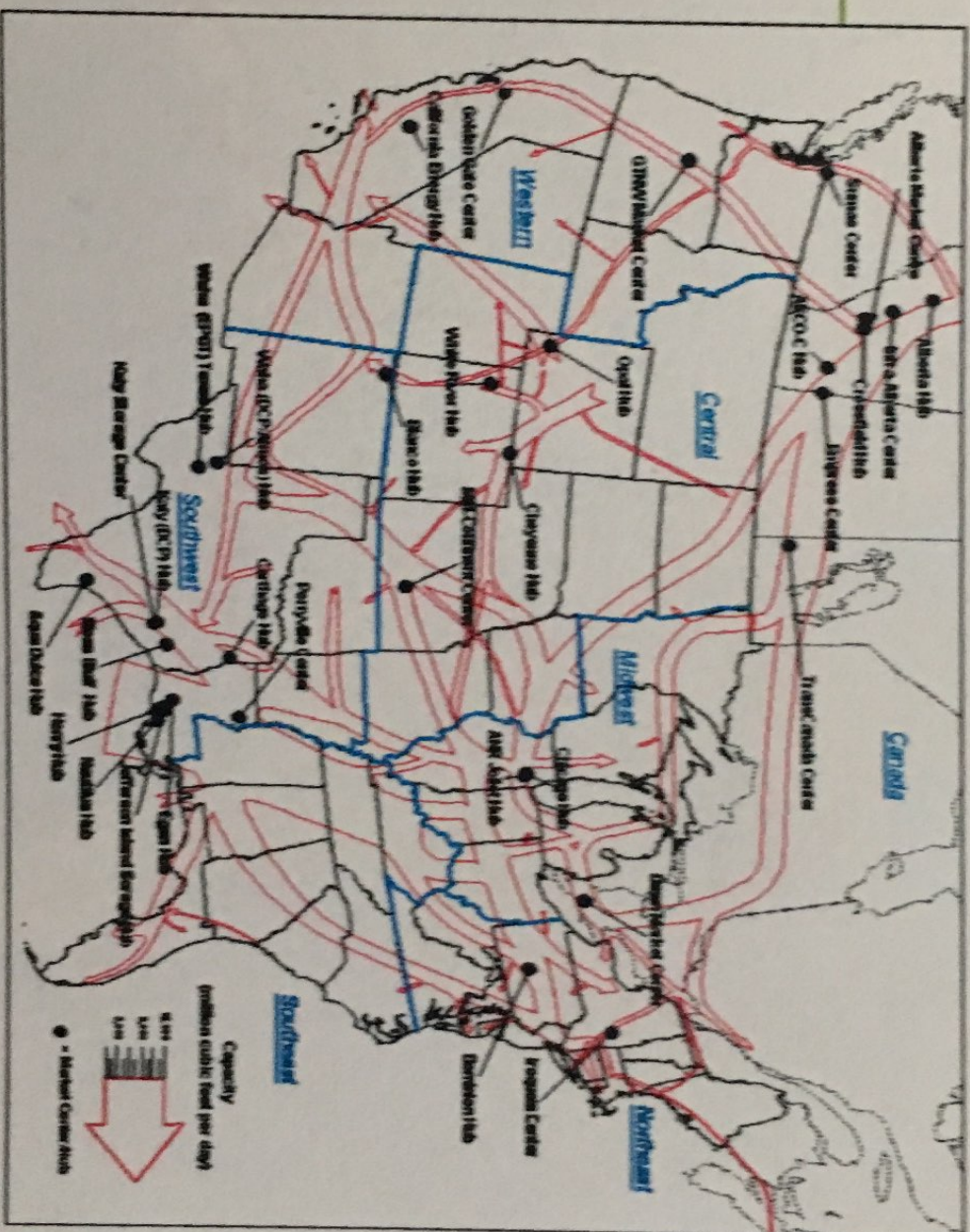
Division of Pipeline Regulation

Federal Energy Regulatory Commission

Interstate Pipelines



Interstate Pipelines

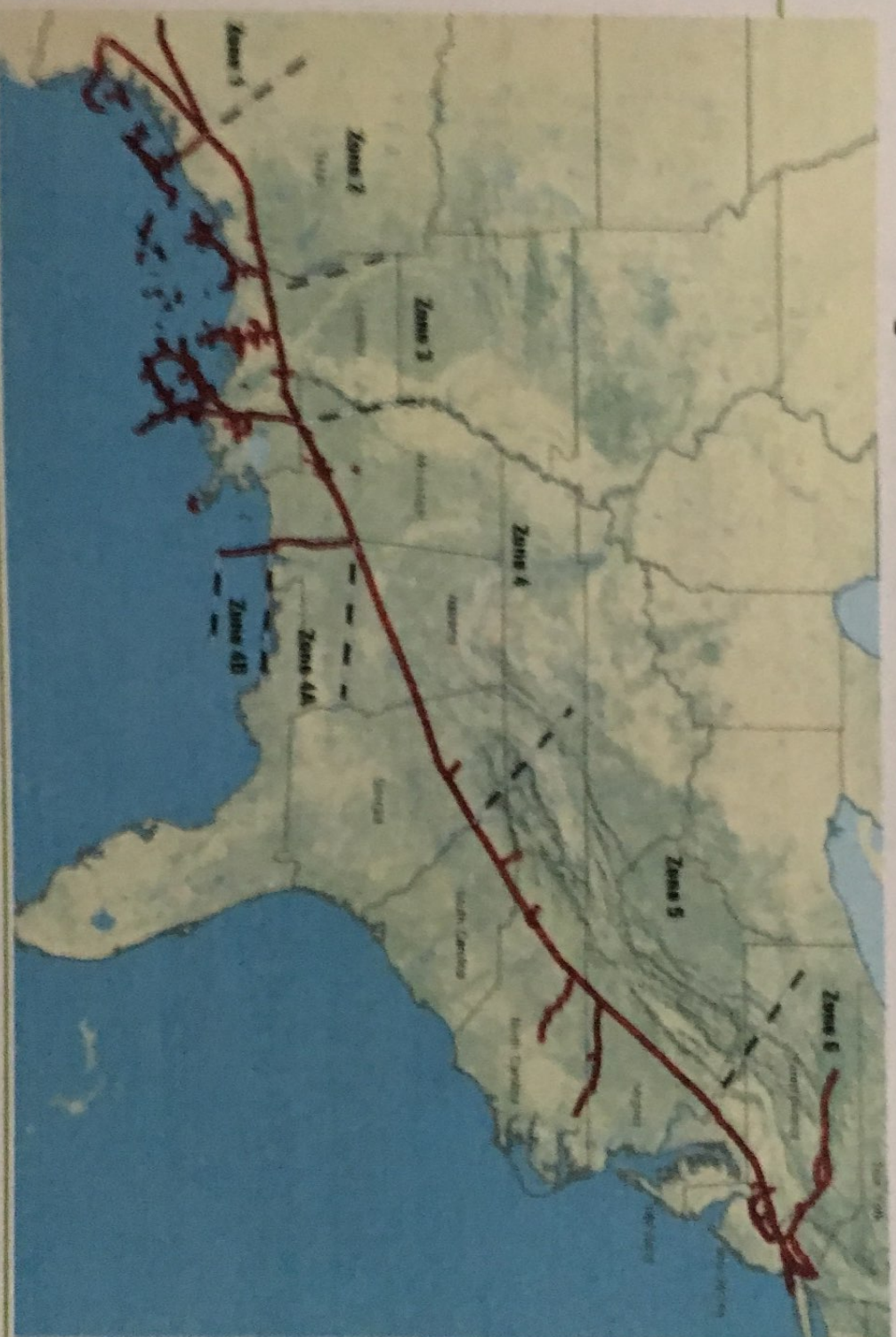


Natural Gas Regulation

- Interstate pipelines are regulated by FERC under the Natural Gas Act (NGA).
- In 1992, Order No. 636 unbundled interstate pipeline sale of gas from pipeline transportation, resulting in a deregulation of gas interstate pipeline sales.
- Interstate pipelines are now required to provide transportation only service on an open access basis while customers now had choices in the purchase of their gas from producers.

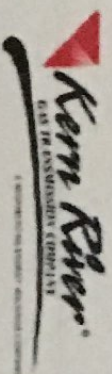
Natural Gas Rates

- Rate changes: Zonal Rates

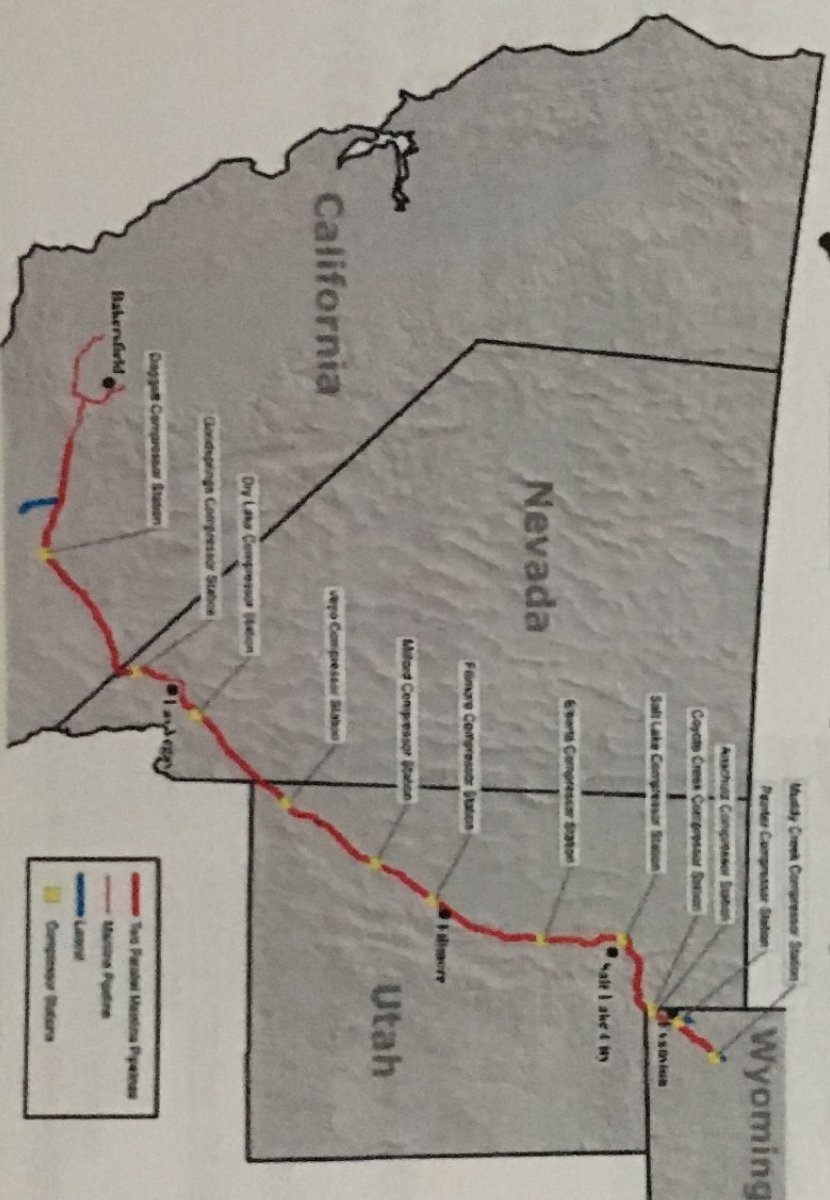


Natural Gas Rates

- Rate Changes: Postage Stamp Rates



Pipeline System



Natural Gas Rates

- Maximum Recourse Rate = cost of service / total throughput of gas
- Interstate pipelines may also offer a discount which they negotiate with customers on a non-discriminatory basis which is lower than the maximum recourse rate allowable under service provided

Natural Gas Services

- A pipeline's tariff includes a General Terms and Conditions of Service (GT&C) which describes how the pipeline provides services.

<u>Section 25 – Monthly Imbalance Resolution</u>
<u>Section 26 – Changes in Rates for Rate Schedule S-2</u>
<u>Section 27 – Annual Charge Adjustment (ACA) Provision</u>
<u>Section 28 – Nominations, Allocations, Curtailment and Confirmations</u>
<u>Section 29 – Best Available Operational Data</u>
<u>Section 30 – Complaint Procedures - Marketing Function Employees</u>
<u>Section 31 – Waiver</u>
<u>Section 32 – Credit Worthiness</u>
<u>Section 33 – Order of Discounts</u>
<u>Section 34 – Periodic Reports</u>
<u>Section 35 – Standards for Business Practices</u>
<u>Section 36 – Gathering Affiliate(s) Standards of Conduct</u>
<u>Section 37 – Cash Out Provisions</u>
<u>Section 38 – Fuel Retention Adjustment</u>
<u>Section 39 – Adjustments to Prior Gas Day Scheduled Quantities and PDAs</u>
<u>Section 40 – Discount Policy</u>
<u>Section 41 – Transmission Electric Power Cost Adjustment Provision</u>
<u>Section 42 – Capacity Release</u>
<u>Section 43 – System Management Gas</u>
<u>Section 44 – Extension of Service Agreement</u>
<u>Section 45 – Periodic Rate Adjustments and Surcharges</u>

Types of Natural Gas Service

- Firm Service: the highest quality of uninterrupted gas transmission service available to a customer during a period covered by an agreement. Most expensive.
- Interruptible Service: gas transportation service to customer subject to interruption and availability. Least expensive.

Economic Efficiencies in Pipeline Technology

- Economic efficiencies of pipeline design such as hydraulic efficiencies (diameter, pressure and roughness) as well as choice of compressor units (solar efficiencies) result in lower operation and maintenance costs and equate to lower rates for customers.
- Economic efficiencies in interstate pipeline design and compressor unit design also result in less lost and unaccounted-for gas on the system.

Economic Efficiencies in Pipeline Technology



Rate and Tariff Analysis

- Ensure that interstate pipeline rates are just and reasonable.
- Ensure that General Terms and Conditions in the tariff are non-discriminatory and consistent with FERC policies and practices.
- Evaluate any adverse comments to a filing in deciding whether to approve or reject an interstate pipeline proposal.
- Use resources at FERC such as E-library, FERC electronic forms and databases in determining FERC policy and precedent.